

## **PUBLIC DISCLOSURE**

July 8, 1996

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**FIRST STATE BANK  
275657  
10-20-4060**

**P.O. BOX 397  
NESS CITY, KANSAS 67560**

Federal Reserve Bank of Kansas City  
925 Grand Boulevard  
Kansas City, Missouri 64198

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of The First State Bank prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of July 8, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

### **INSTITUTION'S CRA RATING: *Satisfactory Record of Meeting Community Credit Needs.***

The bank has a satisfactory record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The loan-to-deposit ratio is reasonable, given the institution's size, financial condition, and assessment area credit needs. In addition, a substantial majority of the bank's loans are within its assessment area. The geographic distribution of loans and the distribution among borrowers reflect a reasonable dispersion throughout the assessment area to businesses and farms of different sizes.

The following table indicates the performance level of The First State Bank with respect to each of the five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT</b>	<b>The First State Bank PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does not meet Standards for Satisfactory Performance</b>
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

## DESCRIPTION OF INSTITUTION

The First State Bank is located in Ness City, Kansas, a city with a population of 1,724 according to the 1990 United States Census. The bank's office at 206 North Pennsylvania Avenue is readily accessible to the entire community. The bank was last examined for compliance with the Community Reinvestment Act as of April 10, 1995, when it was assigned a rating of Outstanding. The bank has the ability to meet the credit needs of its defined assessment area based on its size, financial condition, and resources. According to the bank's March 31, 1996 Consolidated Reports of Condition and Income (Call Report), the bank's assets totaled \$29,101M, of which loans constituted \$13,142M or 45 percent. Although the bank offers a variety of loan products to help meet the credit needs of its entire assessment area, the bank is primarily an agricultural lender. The bank's March 31, 1996 Call Report reflected the following loan distribution.

<b>THE BANK'S LOAN PORTFOLIO</b>		
<b><i>Loan Type</i></b>	<b><i>Amount (\$000)</i></b>	<b><i>Percent of Total</i></b>
Multiple and 1- to 4-family real estate	420	3
Farmland or agricultural purposes	9,969	76
Commercial	1,943	15
Nonfarm nonresidential	208	2
Consumer	483	3
Other	119	1
<b><i>TOTAL</i></b>	<b>13,142</b>	<b>100</b>

## **DESCRIPTION OF THE FIRST STATE BANK ASSESSMENT AREA**

The assessment area of The First State Bank is Ness County, which consists of two block numbering areas (BNAs). Both BNAs have been defined as middle-income areas; however, low-and moderate income households can be found scattered throughout the community. Ness City is the county seat for Ness County.

Agriculture is the primary source of income for Ness County. The predominate agriculture products are wheat and cattle. In addition to agriculture, the major employers are the Ness County Hospital with 90 employees, Ness County with 60 employees, Unified School District #303 with 60 employees, and the Derrick Inn Motel with 50 employees. Unemployment is relatively low within the assessment area compared to statewide figures. However, there is a shortage of job opportunities for the work force in the county. The employment base loss and the decrease of small businesses in the area are directly related to the decrease in oil field production. Not only has the oil sector employment decreased, but a large portion of the small retail businesses that were supported by the employees have closed. All contacts indicated that the Ness County Economic Development Committee is researching methods to attract new businesses and establish job opportunities in the county.

The population of the assessment area has remained steady. The age of the housing stock in Ness City varies, but the older homes are well maintained. There are very few rental units in the community. Most 1- to 4-family residential units are sold as primary residences rather than used as investment property. Other characteristics of the assessment area, based on the 1990 census data, are summarized in the following table:

<b>THE BANK'S ASSESSMENT AREA CHARACTERISTICS</b>	
<i><b>Population Summary</b></i>	
<b>Total Population</b>	<b>4,033</b>
<i><b>Income Summary</b></i>	
<b>Median Family Income</b>	<b>\$28,244</b>
<b>Percent Low-Income Families</b>	<b>16</b>
<b>Percent Moderate-Income Families</b>	<b>20</b>
<b>Percent Middle-Income Families</b>	<b>31</b>
<b>Percent Upper-Income Families</b>	<b>33</b>
<i><b>Miscellaneous Information</b></i>	
<b>Percentage of Households Below Poverty</b>	<b>7</b>
<b>Percent of Unemployment</b>	<b>2</b>

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Several factors were considered in evaluating the bank's CRA performance. A review of the bank's level of lending in relation to its deposits and other comparable financial institutions was conducted. The penetration of loan originations within and outside the bank's defined assessment area was also evaluated. The bank's level of lending to businesses and farms of different sizes was analyzed. In addition, the distribution of loan originations within the bank's assessment area was evaluated. Finally, community leaders were contacted to ascertain the community credit needs and to confirm that the bank was not only aware of the needs, but the products and services provided by the bank met those needs. The bank has not received a complaint since the last examination.

The First State Bank's average loan-to-deposit ratio (calculated using the four quarters since the last examination) of 54 percent is slightly lower than the national peer group and one of two comparable area financial institutions. The loan-to-deposit ratio for the bank's peer group over the same period of time was 61 percent. The bank's peer group consists of all insured commercial banks having assets between \$25MM and \$50MM with one banking office and located in a nonmetropolitan area. An analysis of two Ness County banks of similar size and resources showed average loan-to-deposit ratios of 28 percent and 64 percent. In addition, a much larger financial institution with a branch

located in the assessment area, reflected an average loan-to-deposit ratio of 56 percent. The bank's loan-to-deposit ratio is reasonable, taking into account lending-related activities and seasonal variations, and given the institution's size, financial condition, and assessment area credit needs.

A substantial majority of the bank's lending occurs within its assessment area. Two product types were reviewed to determine the number and percentage of loans inside the bank's assessment area. The review consisted of 44 small-farm loans, of which 41 loans, or 93 percent, were within the assessment area. In addition, 36 small-business loans were reviewed, of which 33 loans, or 92 percent, were within the assessment area. A total of 80 loans were reviewed, of which 74 loans, or 93 percent, were within the assessment area.

Furthermore, the distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among businesses and farms of different sizes. The bank has made numerous loans to small businesses and farms that have annual revenues less than \$1MM. As of May 31, 1996, the bank had originated 566 small-farm and 162 small-business loans with total originations of \$10,371M and \$1,903M, respectively. The bank has originated one Farmers Home Administration (FmHA) loan in the amount of \$300M since the last examination. Also, the bank's origination of numerous small-dollar secured and unsecured consumer loans has provided a service to fixed- and low-income individuals in the community.

Finally, the geographic distribution of loans originated by the bank reflects reasonable dispersion throughout the bank's assessment area. Analysis of the CRA loan sample and a May 31, 1996 internal bank report revealed that originated loans were distributed throughout communities in both BNAs in the assessment area. The bank's geographic distribution of loans is reasonable given management's business strategy; the institution's size, location, and financial condition; and assessment area credit needs.

Currently, opportunities for the bank to participate in community development programs and provide innovative bank services are limited. The performance evaluation does not include information on qualified investments and services.

No substantive violations of the antidiscrimination laws and regulations were identified during the examination. Review of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants. In addition, bank management has provided staff training to prevent violations of the antidiscrimination laws and regulations.